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Vuzix Corporation (NASDAQ: VUZI)

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Buy: Q1 Review.

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Q1 revenue was in line with estimates and the outlook for the year is mostly the same. We expect OEM orders from defense and commercial customers to begin in the second half and drive an acceleration in revenue.

Vuzix reported Q1 revenue of \$4.2 million and an EBITDA loss of \$6 million. We are retaining our full-year estimate based on the expectation of broader deployments at customers who have been piloting the company's smart glasses. We also expect OEM orders from defense and commercial customers to begin in the second half.

In the defense market, the company has development deals with a handful of major defense contractors on waveguide-based products. Lead times can be extended, but once deployment begins production runs can be long and very profitable. We estimate typical production contracts could generate \$10 to \$15 million over a multi-year time frame. Vuzix is also working with multiple customers on supplying waveguides for the consumer market. There is upside to our sales projections from these waveguide projects.

Commercial opportunities could be catalyzed by Apple's long-awaited entry into the market with an AR/VR headset. Vuzix offers an ultralite smartglass system for the OEM market that utilizes the company's proprietary waveguide solution and custom microdisplay engine. A consumer smartglass solution is being pursued by many of the major tech companies including Meta, Apple and Alphabet. We expect a robust market will emerge over the coming years and Vuzix is positioning itself to serve that space.

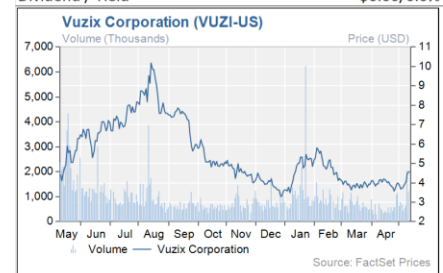
We have lowered our price target to \$8 to reflect the significant increase in interest rates over the past year. Our price target is based on transactions for smart glasses and waveguides, but these occurred in a much lower interest rate environment.

The company has unique expertise in waveguide design and manufacturing and is expanding its waveguide capacity both in response to customer indications of interest and to make itself the number-one choice of waveguides in the OEM market for industrial and consumer use. This investment is modest, a few million dollars, and will expand capacity, lower costs and enable a more robust feature set than the current product. We believe Vuzix can be one of the leading suppliers of waveguides and that this investment will enhance that capability.

Price Target Methodology. Our \$8 price target values the company's smart glasses and waveguide businesses at a significant discount to market transactions in the smart glasses space of \$775M to \$2B and \$500M to \$542M in the waveguide market (see page 2).

Risk Analysis Risks to achieving our price target include continuing negative impacts of the COVID-19 pandemic on the overall economy, changes to business practices in the medium and long-term due to the COVID-19 pandemic, potential competition from Apple and Facebook, increased competition from Google and RealWear, ability to deliver new products on time and manufacturing costs as sales ramp.

Current Price				\$4.59
Price Target				\$8.00
Estimates	F2022A	F2023E	F2024E	
Revenues (\$M's)	\$ 11.8	\$ 20.1 E	\$ 25.5	
1Q March	\$ 2.5	\$ 4.2 A	\$ 5.6	
2Q June	\$ 3.0	\$ 4.6 E	\$ 6.1	
3Q September	\$ 3.4	\$ 5.9 E	\$ 6.6	
4Q December	\$ 2.9	\$ 5.4 E	\$ 7.1	
	F2022A	F2023E	F2024E	
EBITDA (\$M's)	\$ (23.9)	\$ (21.5)E	\$ (20.7)	
1Q March	\$ (5.8)	\$ (6.0)A	\$ (5.6)	
2Q June	\$ (5.7)	\$ (5.6)E	\$ (5.3)	
3Q September	\$ (5.4)	\$ (4.8)E	\$ (5.0)	
4Q December	\$ (7.3)	\$ (5.1)E	\$ (4.7)	
EV/Sales	NM	11.3 x	8.9 x	
EV/EBITDA	NM	(10.6) x	(11.0) x	
Stock Data				
52-Week Range	\$3.27	-	\$10.49	
Shares Outstanding (mil.)				63.2
Market Capitalization (mil.)				\$290
Enterprise Value (mil.)				\$227
Debt to Capital				0%
Cash & Equivalents (mil.)				\$63.2
Cash/Sh.				\$1.00
Average Three Months Trading Volume (K)				700
Insider Ownership				7.4%
Institutional Ownership				46.1%
Short interest (mil.)				23.7%
Dividend / Yield				\$0.00/0.0%



Q1 Actual v Estimates.

Q1 23	Actual	Estimates	Delta	% Delta
Total Sales	\$ 4,191	\$ 4,625	\$ (434)	-9%
Total COGS	3,315	3,397	(81)	-2%
Total Gross Profit	876	1,228	(352)	-29%
R&D	3,070	3,371	(301)	
Sales & Marketing	2,540	2,175	364	
G&A	5,132	5,184	(53)	
D&A	964	449	516	
Operating Expense	11,723	11,179	544	5%
Operating Income	\$ (10,847)	\$ (9,951)	(896)	-9%
Interest & Other	607	(19)	626	
Pretax Income	\$ (10,241)	\$ (9,970)	(270)	
Income Taxes	0	0		
Net to Common	\$ (10,241)	\$ (9,970)	(270)	-3%
Diluted Shares	63,217	63,474		
EPS	\$ (0.16)	\$ (0.16)	\$ (0.00)	-3%
Operating Income	\$ (10,847)	\$ (9,951)		
D&A	1,197	762		
Stock Comp	3,668	3,759		
Other	18	0		
EBITDA	\$ (5,965)	\$ (5,430)	\$ (535)	-10%

Source: Vuzix Corporation and Dawson James Securities estimates

Valuation

Our price target is based on market transactions in the smart glasses and waveguide markets. These are two distinct markets, and Vuzix has important and meaningful positions in both of them.

In the smart glasses market, Pico Interactive was acquired by ByteDance (parent of TikTok) in August of 2021 for a [reported](#) \$775 million. In October of 2021, Magic Leap raised \$500 million at a [reported](#) \$2 billion valuation. The average of these two transactions is \$1.4 billion. Financial data for each is not available, but we believe revenue for Magic Leap is minimal.

In the waveguide market, DigiLens raised \$50 million in November 2021 at a [\\$500 million valuation](#) and in May of 2021 Snap purchased Wave Optics for cash and stock [totaling \\$541.8 million](#). The average of these transactions is \$521 million. Revenue is not available for either of these companies but we believe they are minimal. Snap has [stated](#) revenue from Wave Optics was not material relative to its results.

Combining the average transaction value of \$1.4 billion for smart glasses with the \$521 million average transaction value for waveguides results in a combined target of \$1.9 billion, or \$30 per share after adjusting for the company's \$63 million cash balance. However, we have discounted this sharply, to \$8, to reflect the risk of competition by larger and better-capitalized competitors, the

time it may take to bring products to market, and the sharply higher interest rates currently compared to rates at the time of these transactions.

Risk Analysis

Risks to achieving our price target include continuing negative impacts of the COVID-19 pandemic on the overall economy, changes to business practices in the medium and long-term due to the COVID-19 pandemic, potential competition from Apple and Facebook, increased competition from Google and RealWear, ability to deliver new products on time and manufacturing costs as sales ramp.

Exhibit 1. Income Statement
(\$ in 000's except per share data)

	2020	2021	2022 A	Q1 23 A	Q2 23 E	Q3 23 E	Q4 23 E	2023 E	2024 E
Total Sales	\$ 11,581	\$ 13,165	\$ 11,836	\$ 4,191	\$ 4,591	\$ 5,900	\$ 5,400	\$ 20,083	\$ 25,500
Total COGS	10,984	11,596	10,353	3,315	3,367	3,891	3,691	14,265	16,324
Total Gross Profit	598	1,568	1,483	876	1,224	2,009	1,709	5,818	9,176
R&D	7,568	11,675	12,677	3,070	3,070	3,070	3,070	12,279	12,893
Sales & Marketing	4,040	6,119	8,078	2,540	2,540	2,540	2,540	10,159	10,667
G&A	6,915	22,503	21,039	5,132	5,224	5,224	5,224	20,802	21,333
D&A	1,129	988	1,789	964	964	964	964	3,857	0
Other	74	133	133	18	0	0	0	18	0
Operating Expense	19,725	41,418	43,716	11,723	11,797	11,797	11,797	47,115	44,893
Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (10,847)	\$ (10,573)	\$ (9,788)	\$ (10,088)	\$ (41,297)	\$ (35,717)
Interest & Other	1,175	(397)	1,469	607	607	607	607	2,426	(76)
Pretax Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,967)	\$ (9,182)	\$ (9,482)	\$ (38,870)	\$ (35,793)
Income Taxes	0	0	0	0	0	0	0	0	0
Net Income	\$ (17,952)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,967)	\$ (9,182)	\$ (9,482)	\$ (38,870)	\$ (35,793)
Preferred Dividends	(2,056)	0	0	0	0	0	0	0	0
Net to Common	\$ (20,008)	\$ (40,246)	\$ (40,764)	\$ (10,241)	\$ (9,967)	\$ (9,182)	\$ (9,482)	\$ (38,870)	\$ (35,793)
Diluted Shares	38,110	61,125	63,738	63,217	63,214	63,376	64,737	63,636	67,529
EPS	\$ (0.53)	\$ (0.66)	\$ (0.64)	\$ (0.16)	\$ (0.16)	\$ (0.14)	\$ (0.15)	\$ (0.61)	\$ (0.53)
Operating Income	\$ (19,127)	\$ (39,849)	\$ (42,233)	\$ (10,847)	\$ (10,573)	\$ (9,788)	\$ (10,088)	\$ (41,297)	\$ (35,717)
D&A	2,642	2,310	2,588	1,197	1,197	1,197	1,197	4,789	0
Stock Comp	2,806	17,303	15,776	3,668	3,759	3,759	3,759	15,037	15,037
EBITDA	\$ (13,680)	\$ (20,237)	\$ (23,870)	\$ (5,965)	\$ (5,617)	\$ (4,832)	\$ (5,132)	\$ (21,471)	\$ (20,680)

Source: Vuzix Corporation and Dawson James Securities estimates

Exhibit 2. Balance Sheet and Cash Flow Statement

(\$ in 000's)

	2020	2021	2022 A	2023 E	2024 E
Cash	36,070	120,204	72,564	28,863	18,745
A/R	1,389	2,242	3,559	3,551	4,685
Note Receivable	0	0	0	0	0
Revenue in excess of billings	0	0	269	192	192
Employee Retention Credit Rec.	0	0	467	467	467
Inventory	6,101	12,152	11,268	11,811	14,019
Prepaid Expenses & Other	1,496	2,552	3,115	2,699	3,562
Current Assets	\$ 45,055	\$ 137,150	\$ 91,241	\$ 47,583	\$ 41,669
Tooling & Equipment	2,837	5,190	3,879	4,798	3,010
Operating Lease Right of use	1,517	1,117	956	792	792
Patents & Trademarks	1,593	1,988	2,220	2,341	2,341
Licenses, net	194	1,390	30,159	61,582	61,582
Intangible Assets & Other	1,275	1,631	3,858	3,883	3,783
Total Assets	\$ 52,471	\$ 148,467	\$ 132,313	\$ 120,979	\$ 113,176
Accounts Payable	1,517	2,055	1,212	1,638	2,161
Unearned Revenue	41	28	29	53	70
Accrued Expenses	983	1,419	1,671	1,889	2,492
Licensing Fees Commitment	0	0	11,500	0	0
Taxes Payable	110	120	215	29	39
Operating Lease Right of use	444	534	651	562	562
Current Liabilities	\$ 3,095	\$ 4,156	\$ 15,277	\$ 4,172	\$ 5,325
Operating Lease Right of use	1,073	583	305	229	229
Licensing Fees Commitment	0	0	0	0	0
Equity	48,303	143,728	116,730	116,577	107,622
Total Liabilities & Equity	\$ 52,471	\$ 148,467	\$ 132,313	\$ 120,979	\$ 113,176
	2020	2021	2022 A	2023 E	2024 E
Net Income	\$ (17,952)	\$ (40,377)	\$ (40,764)	\$ (38,870)	\$ (35,793)
D&A	2,642	2,310	2,588	4,789	4,789
Stock Comp	2,806	17,303	15,776	15,037	15,037
Other	41	784	323	93	100
Working Capital	(1,501)	(6,999)	(2,444)	(9,543)	(3,051)
Operating Cash Flow	\$ (13,964)	\$ (26,980)	\$ (24,521)	\$ (28,496)	\$ (18,919)
CapEx	(497)	(3,809)	(1,724)	(4,535)	(3,000)
Acquisition	0	0	(18,823)	0	0
Other	(989)	(1,043)	(624)	(11,908)	0
Investing Activities	\$ (1,486)	\$ (4,852)	\$ (21,171)	\$ (16,443)	\$ (3,000)
Equity	39,357	127,112	(1,948)	1,329	11,800
Debt	1,556	0	0	0	0
Other	0	(1,144)	0	0	0
Preferred	0	(10,000)	0	0	0
Financing Activities	\$ 40,913	\$ 115,967	\$ (1,948)	\$ 1,329	\$ 11,800
Change in Cash	\$ 25,463	\$ 84,134	\$ (47,640)	\$ (43,609)	\$ (10,119)

Source: Vuzix Corporation and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

- Initiated – Buy – December 21, 2021 – Price Target \$15.00
- Update – Buy – January 6, 2022 – Price Target \$15.00
- Update – Buy – March 4, 2022 – Price Target \$15.00
- Update – Buy – May 11, 2022 – Price Target \$15.00
- Update – Buy – May 19, 2022 – Price Target \$15.00
- Update – Buy – July 6, 2022 – Price Target \$15.00
- Update – Buy – July 18, 2022 – Price Target \$15.00
- Update – Buy – August 3, 2022 – Price Target \$15.00
- Update – Buy – August 10, 2022 – Price Target \$15.00
- Update – Buy – November 2, 2022 – Price Target \$15.00
- Update – Buy – November 10, 2022 – Price Target \$15.00
- Update – Buy – November 17, 2022 – Price Target \$15.00
- Update – Buy – January 11, 2023 – Price Target \$15.00
- Update – Buy – March 2, 2023 – Price Target \$15.00
- Update – Buy – April 11, 2023 – Price Target \$15.00
- Price Target Change – Buy – May 11, 2023 – Price Target changed from \$15.00 to \$8.00

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Current as of 1-May-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	6%
Market Perform (Neutral)	10	28%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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